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Testimony of Augustine Tantillo
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China: Government Policies Affecting U.S. Trade in Selected Sectors
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Mr. Chairman and Members of the Commission:

Thank you for the opportunity to testify at this important hearing. My name is Auggie Tantillo, and I am the Executive Director of the American Manufacturing Trade Action Coalition (AMTAC).

AMTAC is a trade association founded by domestic manufacturers who are committed to maintaining manufacturing in the United States. Our objective is to seek the establishment of trade policy and other measures designed to stabilize the U.S. industrial base and thus preserve and create American manufacturing jobs. AMTAC represents a wide range of industrial sectors including, tool and die, chemical, furniture, mold makers, metal products, packaging products, corrugated containers and lumber producers. Additionally, a significant component of AMTAC's membership consists of producers from the yarn, fabric, dyeing and finishing, and apparel sectors.

From AMTAC's perspective, it is clear that the People's Republic of China represents the single greatest trade problem confronting the United States as a whole, and the U.S. manufacturing base in particular. Moreover, it is also abundantly clear that the single greatest driving factor behind the China problem is China's flagrant and continual willingness to subsidize their manufacturing base.

The impact on the U.S. market has been nothing short of astounding. In 2001, the year prior to China's entry into the World Trade Organization, the United States imported \$951 billion in manufactured goods, including \$100.1 billion from China.¹ China held a 10.5 percent share of the U.S. import market for manufactured goods.

By 2006, U.S. imports of manufactured goods had climbed to \$1.417 trillion, with U.S. imports from China accounting for \$281.5 billion. This \$181.4 billion increase in U.S. imports helped China boost its import market share in the United States for manufactured goods to 19.9 percent. Since joining the WTO just over five years ago, China's

¹ Data in this segment is courtesy of the U.S. Commerce Department's ITA Trade Stats Express. Values are for SITC codes.

manufacturing exports to the U.S. have nearly tripled, and they are the major reason behind the surging U.S. trade deficit during that period.

Despite commitments made as part of their accession to the World Trade Organization in 2002, China continues to maintain industrial and export policies based on non-market economy principles. As a result, Chinese producers easily undercut world prices through massive government subsidies including free land, free utilities, subsidized raw materials, loans that do not have to be repaid, value-added tax rebates and a currency undervalued by as much as 40 percent.

We base our contention that Chinese producers continue to benefit from significant government subsidies on the following:

I. Data garnered from Subsidy Cases

In March of this year, the Commerce Department reversed its long-standing position of exempting non-market economies from U.S. countervailing duty law. The decision was made in the context of a case on subsidized imports from China of coated paper. The investigation associated with this case has given credence to long-standing claims on the part of U.S. industry that Chinese competitors are benefiting significantly from state-sponsored subsidies.

The Commerce Department's findings include:

- **Government Policy Loans:** Loans from all Government of China (GOC) banks are not made at market rates. The standard lending rate in China was found to be more than 50 percent below the benchmark lending rate Commerce calculated using proxy countries.
- **Income Tax Programs:** Foreign Invested Enterprises (FIE) pay no income tax in the first 2 years of profitability and half the normal rate for the next three years.
- **VAT/Tariff Exemptions:** China was found to manipulate their value-added tax system by granting exemptions and special rebates for certain products and economic development zones. Certain companies were also exempted from paying tariffs on imported equipment.
- **Grant Programs:** Companies can apply to the "State Key Technology Renovation Project Fund" for grants to defray the cost of implementing new technologies.
- **Preliminary Finding by the Department of Commerce:** Chinese coated-paper producers received counter-vailable subsidies ranging from 10.90 to 20.35 percent

II. Textiles and Apparel Are Priority Sectors for China

There are many factors which lead to the logical conclusion that Chinese textile and apparel manufacturers are also enjoying sizable subsidies from their government. Based on long-range industrial planning, China has designated certain manufacturing sectors for special assistance. Using research that AMTAC and others conducted in regard to the special China textile safeguard cases filed in 2004 and 2005, it is clear that China's textile and apparel sectors have been designated as high-priority industries for the purpose of receiving "special assistance". In fact, the United States - China Economic and Security Review Commission has noted that the Chinese government has selected this sector as one of its "pillar industries."

The importance of the textile and apparel sector in China is further illustrated by the following:

- Chinese statistics state that employment in the textile industry totaled 19.6 million in 2005, accounting for 16 percent of total manufacturing jobs.² Other sources, however, put employment at 90 million people when accounting for those indirectly employed in the Chinese textile industry as well.³
- Chinese government statistics reveal that China invested \$84.4 billion in textile and apparel sector between January 2001 and August 2007.

China: Fixed Asset Investment in the Textile Industry (Bil US\$)

Cumulative Annual Total		
	Amount	% Change
1999	\$1.64	---
2000	\$2.48	51.2%
2001	\$3.55	42.9%
2002	\$4.35	22.4%
2003	\$7.24	66.7%
2004	\$12.39	71.3%
2005	\$17.36	40.1%
2006	\$22.16	27.6%
Jan-Aug 07	\$17.31	50.0%*
Total: 2001- Aug 07	\$84.35	

*Based on 2007 estimate from Jan-Aug data

Sources: China's National Bureau of Statistics, State Planning Commission and SIC

- During the China's Ninth Five-Year Plan period (1996-2000), China's cumulative textile apparel exports numbered \$221.5 billion USD. Its net foreign-exchange

² <http://www.ccpitex.com/eng/texInfo/7624.html>

³ *China: Stick to WTO Rules, Commerce Minister Urges*, just-style.com, September 20, 2004.

income was \$170 billion USD, which made the textile industry its major foreign-exchange earner.⁴ In the Tenth Five-Year plan (2001-2005), exports of textiles and clothing grew to \$335.2 billion USD.⁵ These numbers should be taken as a lowball estimate. When comparing import data from other countries to China's reporting of its own exports, the import data usually are higher.

- According to Chinese Customs data compiled by the World Trade Atlas, Chinese exports in HTS Chapters 50-63, the textile, apparel and fiber chapters, have grown from \$49.8 billion in 2001 to \$159.7 billion for the twelve months ending in September 2007. The \$109.9 billion rise in exports represents an increase of 220.5 percent.

Considering the importance of the textile industry to China's economy, the subsidies identified in the recent coated paper CVD case undoubtedly are available to Chinese textile and apparel manufacturers. In fact, U.S. textile manufacturers who have displayed interest in investing in China report to us that they have been informed that numerous government subsidies would be available to them. The list of enticements include: free land, subsidized construction and equipment costs; subsidized utilities, subsidized raw materials; extended tax holidays; low-cost loans; and value-added tax rebates on imported raw materials and equipment.

Of course, the specific subsidy activity in the textile sector is exacerbated by China's manipulation of its currency over the past ten years by pegging the yuan to the U.S. dollar. This "macro" subsidy has given Chinese exporters an even greater advantage leading to a particularly disruptive impact on world trade of textiles and apparel. The undervaluation of China's currency has enabled China to sell goods at prices that are lower than fair value in key markets around the world. This not only hurts U.S. producers in our home market but has helped to keep U.S. textile exports out of numerous lucrative markets worldwide.

Another macro-level subsidy is the practice of rebating value-added (VAT) taxes. The damage to U.S. producers caused by China's WTO-legal rebating of its VAT can not be underestimated. China's VAT is 17 percent, but it periodically adjusts the amount rebated to its manufacturers in order to control export levels and raw material allocation. For example, if China gave its textile, apparel and fiber producers just a 9 percent rebate on exports to the world for the last 12 months, those industries would enjoy a collective subsidy of more than \$14 billion. However, it could rebate the full 17 percent tax, or more than \$27 billion in 2007, and still be WTO compliant.

These unfair trading practices have allowed China to grow to be the number one supplier to the U.S. textile and apparel import market since overtaking Canada and Mexico for this status in 2002. China now has a 39 percent share of the U.S. textile and apparel import market by volume for year-ending August 2007. Even these dramatic figures fail to capture China's full export capacity as the U.S. industry has been able to stem China's

⁴ http://www.chinadaily.com.cn/bizchina/2006-04/18/content_570632_2.htm

⁵ <http://www.ccpitex.com/eng/texInfo/7624.html>

Beyond the information associated with China's own long-range plans and the recently filed subsidy cases, we feel that the most compelling evidence of China's pervasive subsidies is found in everyday data collected by government agencies. Specifically, I refer to international trade data that gives unit price information on Chinese exports. The most expansive information in this area is collected by the United Nations (UN). Using the UN COMTRADE database, we gain startling insight into just how incredibly low China's exports prices are for textiles and apparel. The following table provides 2006 data on China's exports of several key apparel products and how these prices compare to directly competitive goods produced elsewhere:

**Comparison of Chinese Apparel Export Prices with "Rest of World" Prices
and U.S. Producer Prices**

	Chinese Exports to the World	Chinese Average Export Price	U.S. Producer Price	Chinese Price Advantage Over U.S. Producers	Average "Rest of World" Price	Chinese Price Advantage over "Rest of World"	Chinese Share of World Exports Value/Quantity	Increase in Chinese Exports in Last Five Years (2001-2006) Value/Quantity
Cotton Trousers (347/348)	\$10.9 billion / 2.8 billion trousers	\$3.97	\$12.79	69%	\$7.85	49%	31% / 47%	275% / 152%
MMF Trouser (647/648)	\$3.7 billion / 1.3 billion trousers	\$2.80	\$11.39	75%	\$6.91	59%	41% / 63%	125% / 94%
Men's Woven Shirts (340/640)	\$2.4 billion / 714 million shirts	\$3.43	\$12.05	72%	\$7.43	54%	30% / 48%	77% / 51%
Cotton Knit Shirts (338/339)	\$6.2 billion / 3.1 billion shirts	\$2.01	\$4.55	56%	\$3.65	45%	25% / 37%	278% / 133%
MMF Knit Shirts (638/639)	\$3.0 billion / \$1.3 billion shirts	\$2.24	\$4.09	45%	\$4.64	52%	33% / 50%	332% / 175%
Average		\$2.89	\$8.97	63%	\$6.10	52%	32% / 49%	217% / 121%

Sources: United Nations COMTRADE database (2006)

Note: Export data does not include duties, shipping and insurance. These costs would raise Chinese export prices by approximately 20%, to \$3.47/garment, and "rest of world" prices to \$7.32/garment. With these costs included, Chinese prices are 61% below U.S. producer prices and 53% below "rest of world" prices.

*Rest of world = "exporting countries" minus China.

When you apply a basic understanding of the textile and apparel production process to data contained in the table above, you begin to realize just how unfeasible the China price is for these goods. The standard process for transforming a fiber, such as cotton into a finished garment involves numerous steps that are time consuming, complicated and, not the least of which, expensive. Industry studies have indicated that there are nearly 60 separate steps involved in the standard textile and apparel production chain. These steps include major categories of activity such as the production of a base fiber; the spinning of that fiber into a yarn; the weaving of the yarn into a fabric; the preparation, dyeing and finishing of fabric (which normally involves 20 or more different procedures); the cutting and sewing of a garment and finally the labeling, packaging and shipping of that finished good.

When you take into account that many of these steps, especially those involving yarn and fabric production are highly capital intensive, it becomes abundantly clear that China is exporting finished apparel for less than the standard cost of the component parts. In a sense, there is no greater evidence of China's pervasive subsidy regime than the pricing information readily available through various sources.

China's Subsidy Practices Are Having a Devastating Impact in the U.S. and Globally:

Policymakers have long recognized that textile and apparel manufacturing holds a unique place in the global economy – the reason being that textiles and apparel are one of the few, if not only, products manufactured in every corner of the globe, regardless of the producing country's stage of economic development. As a result, China's subsidy practices benefit their manufacturers at the expense of other producers around the world from the United States to Nicaragua to Lesotho to Sri Lanka.

The following trade statistics highlight the damage suffered in the hard-hit U.S. textile and apparel industry.

U.S. Imports of Textiles and Apparel by Volume

In 2001, U.S. textile and apparel imports by volume totaled 32.8 billion square meters equivalent (SME).⁶ China's share of that total was 6.7 percent, or 2.2 billion SME.

Fast forward a little more than five-and-a-half years later to the twelve months ending in August 2007; U.S. textile and apparel imports exploded to 53.0 billion SME, an increase of 61.5 percent, or 20.2 billion SME. China's share of that total grew even more spectacularly, skyrocketing 841.7 percent, or 18.6 billion SME. To put it another way, China captured an astounding 92.2 percent by volume of all growth in U.S. textile and apparel imports between the end of 2001 and the end of August 2007. As a result, China now holds a 39.3 percent share of the U.S. textile and apparel import market.

⁶ Data in this segment is courtesy of the U.S. Office of Textiles and Apparel (OTEXA).

U.S. Imports of Textiles and Apparel by Value

By value, the United States imported \$70.24 billion in textiles and apparel in 2001.⁷ China's share of this figure was 9.3 percent, or \$6.5 billion. For the twelve months ending in August 2007, the value of total U.S. textile and apparel imports had risen to \$96.46 billion, an increase of 37.3 percent, or \$26.22 billion. China's share of those imports grew even faster, climbing 385 percent, an increase of \$25.2 billion, to \$31.7 billion. This growth enabled China to capture 96.0 percent by value of all growth in U.S. textile and apparel imports between the end of 2001 and the end of August 2007. Today by value, China now holds a 32.9 percent share of the U.S. import market for textiles and apparel.

U.S. Output of Textiles and Apparel

The flood of U.S. textile and apparel imports has had a correspondingly negative impact on U.S. textile and apparel output. Between December 2001 and September 2007, output fell for U.S. Textile Mills by 25.1 percent and for U.S. Apparel manufacturers by 29.6 percent. Output for U.S. Textile Product Mills rose by a miniscule 0.46 percent.

U.S. Manufacturing Employment and Wages

The explosion of U.S. imports of manufactured good has affected U.S. employment in manufacturing negatively. U.S. manufacturing employment stood at 15,713,000 in December 2001, but fell to 13,983,000 by September 2007 – a loss of 1,730,000 jobs.⁸ In September 2007, the average U.S. manufacturing job paid \$718.70 per week compared to \$559.22 per week for the average service-providing job.

As one might suspect, U.S. textile and apparel manufacturing employment has been especially hard hit, falling from 886,800 in December 2001 to 529,100 in September 2007. The loss of 357,700 jobs represents a 40.3 percent decline in U.S. textile and apparel manufacturing employment. Overall, U.S. job losses in textiles and apparel accounted for 20.7 percent of all U.S. manufacturing job losses between December 2001 and September 2007.

Global Impact

China's heavily-subsidized exports negatively affect not only U.S. industries and workers, but their reach extends globally to the poorest countries in the world. The artificial world price for textiles and clothing, driven by China, hinders growth where it is most needed and suppresses wages and living standards for the poorest of the poor.

In his recent book, *The Bottom Billion: Why the Poorest Countries are Failing and What Can be Done About It*, economist and former World Bank Research Director, Paul

⁷ Data in this segment is courtesy of the U.S. Office of Textiles and Apparel (OTEXA).

⁸ Data in this segment is courtesy of the U.S. Bureau of Labor Statistics.

Collier, stresses the negative impact that China and other Asian manufacturing superpowers are having on the bottom billion of the global population. Among his prescriptions for helping these people is the recommendation that developed countries must temporarily restrain China and other dominant players to give poor countries the breathing room to grow:

The bottom billion need to diversify their exports into labor-using manufactures and services, the sort of things that Asia is already doing. Remember that this is the problem – having broken into these markets, low income Asia now has the huge advantage of established agglomerations where costs are lower than for those just starting up elsewhere. When Asia broke into these markets it did not have to compete with established low-cost producers, because it was the first on the block. **For the bottom billion to break into these markets they need temporary protection *from* Asia.** [Emphasis Added]

Conclusion:

In conclusion, it is easy to see how China has been able to gain such a dominant position in the global textile and apparel marketplace. China's government has designed and implemented a sophisticated plan including both general and specific subsidies to ensure that they penetrate and destabilize key markets. It is certainly time for the U.S. government to acknowledge what U.S. manufacturers have known for years, that it is virtually impossible to compete with Chinese producers who have benefit from lax environmental standards, pennies-per-hour labor rates and substantial government subsidies. This combination gives our Chinese competitors more than a comparative advantage, instead they enjoy an unfair and absolute advantage.

Consequently, the U.S. government must aggressively address this problem through the vigorous enforcement of our dumping and subsidy remedies, including the willingness to define as a subsidy China's woefully undervalued currency.

Thank you again for this opportunity to testify today and for your consideration of my views.